

**STATEMENT BY RUDOLPH C. McCOLLUM, JR.  
CITY OF RICHMOND, VIRGINIA  
ENERGY AND POWER SUBCOMMITTEE  
HOUSE COMMERCE COMMITTEE  
FIELD HEARING - RICHMOND, VIRGINIA  
APRIL 18, 1997**

**SUMMARY**

The City of Richmond believes that the success of electric restructuring will depend on several factors. Restructuring should be undertaken only to the extent that it would result in fair pricing and reliable service, and only in a manner that would allow municipalities to participate fully in the delivery of their citizens' energy needs.

Richmond believes that the intended benefits of competition will not be realized if retail service is unbundled without forethought. Any restructuring plan must address, among other issues, the market dominance of the incumbent investor-owned electric utilities. Such dominance could cause consumer harm through higher costs and less reliability. Electric utilities should not be allowed to collect excessive stranded cost charges. The many mergers occurring among energy companies could lead to a handful of vertically and horizontally integrated "mega" energy providers.

Any changes in federal law should recognize and maintain local authority to administer land use and environmental protection ordinances, to manage publicly owned rights-of-way, to assess appropriate fees, and to control local taxation revenues.

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**I. Introduction**

Thank you for inviting me to speak before the subcommittee today about electric industry restructuring. My name is Rudolph C. McCollum, Jr. I serve on the Richmond City Council. I also am a member of the National League of Cities Energy, Environment and Natural Resources Policy and Steering Committees. I am speaking today on behalf of the City.

The City of Richmond has a population of approximately 200,000. The City operates a municipal electric utility which purchases electricity for resale primarily for the City's streetlighting operations. We also operate municipal natural gas, water and wastewater utilities.

Richmond views electric restructuring proposals from at least three related perspectives. First and foremost, the City represents the interests of its citizens who should be afforded low-cost and reliable electric power. To this end, we work with Virginia Power which is the private utility that provides electric service to the City's residents. We also participate actively in legislative and administrative forums affecting electric service

in Virginia. We appear regularly before both the Virginia General Assembly and the Virginia State Corporation Commission.

Second, the City government itself is a major electric consumer, with annual electric service purchases of approximately \$10 million. This is the electricity that the City uses to provide power and light for facilities such as our water purification plant, our wastewater treatment plant, our gas propane plant, our streetlighting system, and municipal buildings such as City Hall.

Third, our municipal gas utility places us in a competitive position with the electric industry and with other energy providers. Unlike electricity, which is essential in today's world, any given consumer's use of natural gas is optional. Our gas utility must make gas a fuel of choice in order to compete successfully. Our experience with gas, and with the recent restructuring of the gas industry, also provides us with insights into the possible benefits and pitfalls of electric restructuring.

## **II. Overview**

We do not have any specific electric restructuring recommendations for the Subcommittee today. We do not have a model to recommend. However, we do have some thoughts, issues and concerns that should be taken into account by the Subcommittee, and by Congress as a whole, in fashioning any legislation dealing with electric restructuring.

A central question is “Can retail competition provide lower costs and increase the options available to all classes of consumers while ensuring the reliability of essential electric service?” The answer to this question depends upon several factors. Restructuring should be undertaken only to the extent that it would result in fair pricing and reliable service, and only in a manner that would allow municipalities to participate fully in the delivery of their citizens’ energy needs.

We believe that the intended benefits of competition will not appear if retail service is unbundled or deregulated without forethought. Any restructuring plan must address, among other issues, the market dominance of incumbent investor-owned electric utilities.

We also believe that municipalities must play a substantial role in any effort to restructure the electric industry. Communities should be provided with the flexibility needed to participate fully in ensuring electric power delivery in the manner most responsive to the unique needs of each community. Restructuring must help, not isolate, our citizens.

### **III. Incumbent Private Electric Utilities Have Numerous Advantages**

Today, private electric utilities have tremendous market advantages over other energy providers. Electric utilities have access to critical customer information from virtually every household in the community. To the extent that electric utilities are allowed

to participate in both regulated and unregulated functions at the same time, they have tremendous opportunities for cost shifting and cross-subsidization. In addition, private utilities may hold title to preferred sites for the location of future generation facilities or transmission line rights-of-way. Unless properly addressed, these and other factors would give private electric utilities an undue competitive advantage in a restructured environment.

#### **IV. Incumbent Market Power Can Cause Consumer Harm**

Restructuring can succeed only if it provides economic benefits to all consumer classes. Consumers cannot benefit from vibrant competition if competitive suppliers face the types of unreasonable barriers to entry that I just discussed.

Restructuring also can succeed only if it maintains and improves electric service reliability. In a restructured environment, private electric utilities that are allowed to remain vertically integrated may short-change distribution system maintenance and reliability in order to achieve lower energy rates in competitive markets. This could lead to poorer customer service, and more frequent power outages, of longer duration.

#### **V. Stranded Costs**

We are concerned with the issue of stranded costs or “stranded investment.” Although restructuring might result in some utility costs that legitimately are “stranded,” electric utilities should not be allowed to collect excessive stranded cost charges. Instead,

restructuring should be undertaken only in a manner that leads to a more efficient use of all of the utility's resources.

## **VI. Local Control**

Many cities and towns now benefit from the ability to wheel wholesale power. In addition, legislation should facilitate other opportunities for local governments to aggregate power purchases both for themselves and on behalf of their citizens. Any changes in federal law should recognize and maintain local authority to administer land use and environmental protection ordinances, to manage publicly owned rights-of-way, to assess appropriate fees, and to control local taxation revenues.

## **VII. Lessons Learned from Gas Deregulation**

From its own experience in operating a gas distribution system in a restructured industry, Richmond can draw some useful comparisons of the possible effects of electric restructuring. Richmond's gas customers arguably have received certain benefits from the changes brought by the Federal Energy Regulatory Commission's Order No. 636 and other changes in the industry's structure. We have been able to procure gas supplies at lower cost. Customer choice has increased. But we also have seen some industry developments that concern us.

We are concerned that the continuing frenzy of energy company mergers will result in an unhealthy concentration of market power in both gas and electric markets. We don't

believe that having only a handful of “mega” energy providers that are vertically and horizontally integrated is in our nation’s long-term best interest.

In some cases, the presumption of effective competition perhaps has led regulators to fail to analyze properly whether competition really exists and thus to ignore the need for continued regulation in those areas not subject to meaningful competition.

Allowing large industrial customers to physically bypass the local gas distribution system results in a shift of the recovery of fixed distribution costs to the system’s remaining small, core residential and commercial customers that are physically captive of the distribution system. Thus, a “zero sum” game, rather than a “win-win” situation, results from physical bypass and other unbridled laissez faire activities.

## **VIII. Keys to Appropriate Electric Restructuring**

In closing, we ask that you consider the following suggestions as you deliberate on the merits of electric restructuring:

1. Reduce vertical and horizontal market power in the electric utility industry.  
Certainly, do not let market consolidation increase unchecked as a result of rampant mergers in the energy industry.
2. Ensure continued regulation of functions and activities not subject to effective competition.

3. Prevent cross-subsidies between regulated and unregulated activities.
4. Ensure the improved reliability of electric distribution systems.
5. Prevent the assessment of excessive stranded costs.
6. Enhance the ability of local governments to participate in providing responsive, cost-effective solutions to local electric energy needs.

Any restructuring plan must result in fair pricing and reliable service for all consumers, particularly residential and small commercial customers. Communities must be allowed to participate fully in providing energy solutions.

Thank you again for this opportunity to testify on behalf of the City of Richmond.  
I would be happy to respond to any questions.

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